

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 HAVANA 1879

EO 11652: GDS
TAGS: ECON ELAB PINT CU UR
SUBJ: CUBANS MOVE TO CURTAIL MONETARY EXPANSION

1. SUMMARY: THE CUBAN GOVERNMENT HAS CURTAILED ITS EFFORT TO ENHANCE MATERIAL INCENTIVES THROUGH WISE-RANGING SALARY INCREASES. THE REASON FOR THIS MOVE IS THAT MONETARY LIQUIDITY IS EXPANDING MORE RAPIDLY THAN THE SUPPLY OF GOODS AND SERVICES ON WHICH MONEY CAN BE SPENT. THE CUBAN GOVERNMENT PRESUMABLY FEELS THAT EXCESS LIQUIDITY WOULD ELIMINATE WHATEVER INCENTIVE VALUE MONEY NOW HAS AND WOULD SPUR BLACK MARKET ACTIVITY. THE SHORTAGE OF AVAILABLE GOODS AND SERVICES STEMS IN PART FROM INSUFFICIENT HARD CURRENCY INCOME. THE CUBAN MOVE WILL PROBABLY RESULT IN CONTINUED INEFFICIENCY, WORKER ABSENTEEISM, AND COMPLAINTS FROM THE SOVIETS. END SUMMARY.

2. CUBAN LABOR UNION (CTC) LEADER ROBERTO VEIGA, INA SPEECH DELIVERED AT A CLOSED SESSION OF NATIONAL PLENARY OF THE CTC, JUNE 16, (AND SUMMARIZED IN THE NEWSPAPER TRABAJADORES, JUNE 20 AND 22), INDICATES THAT IMPLEMENTATION OF BROAD SALARY REFORMS (ESTABLISHMENT OF HIGHER SALARIES BASED ON DIFFERENCES IN JOB RESPONSIBILITY OR SKILL, EXTRA PAY FOR
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DIFFICULT OR ABNORMAL CONDITIONS OF WORK, PAY FOR UNUSED VACATION, EXTRA PAY FOR MULTIPLE JOBS, ABOLITION OF BOTTOM PAY SCALES IN AGRICULTURE,) WHICH HAVE ALREADY BEEN INTRODUCED IN SOME ENTERPRISES OR SECTORS, WILL HAVE TO BE STOPPED FOR THE PRESENT. (FYI THIS GENERAL STOPPAGE APPARENTLY DOES NOT AFFECT ENTERPRISES IN WHICH SO-CALLED "SCIENTIFIC ORGANIZATION OF WORK" SYSTEMS ARE BEING INSTALLED. THESE ENTERPRISES APPARENTLY HAVE HIGHER THAN

NORMAL PRODUCTION QUOTAS AND, DUE TO EXPANDED PRODUCTIVITY, ABOVE SALARY REFORMS PLUS PREMIUM PAYMENTS FOR FULFILLING OR OVERFULFILLING NORMS WILL BE PERMITTED. END FYI.)

3. THE BROAD MOVE TO SALARY RESTRAINT, A CHANGE THAT WILL CREATE NEW INEQUALITIES WITHIN AND BETWEEN INDUSTRIES AND ENTERPRISES, IS JUSTIFIED BY NEED TO CURTAIL RENEWED EXPANSION OF THE MONEY SUPPLY. THIS EXPANSION IS PROCEEDING AT A FASTER PACE THAN GOODS AND SERVICES ARE BECOMING AVAILABLE TO ABSORB NEW LIQUIDITY. VEIGA POINTS OUT THAT, IN 1970, MONEY IN HANDS OF PUBLIC AMOUNTED TO 3.478 BILLION PESOS (ONE CUBAN PESO NOW EQUALS ABOUT US 1 DOLLAR, 30 CENTS.) AS RESULT OF INCREASED AVAILABILITY OF GOODS AND SERVICES AFTER 1971 (PROBABLY AS RESULT OF INCREASING SUGAR INCOME), OUTSTANDING MONEY BY END OF 1973 DROPPED TO LOW POINT OF 2.248 BILLION PESOS. BUOYED BY HIGHER SUGAR PRICES (AND PRESUMABLY ANTICIPATED HIGHER CONSUMER GOODS IMPORTS), HOWEVER, CUBANS AFTER 1973 BEGAN INSTITUTING SALARY REFORMS MENTIONED ABOVE (PLUS PAYMENT OF OVERTIME, ESTABLISHMENT OF LINK BETWEEN NORMS AND SALARIES, BROADENED USE OF VARIED SALARY SCALES). RESULT OF THESE CHANGES, PLUS PROMOTIONS AND INCORPORATION OF ADDITIONAL 330 THOUSAND WORKERS INTO LABOR FORCE SINCE 1973, INCLUDING MANY WITH HIGHER EDUCATION, HAS LED TO INCREASE OF ANNUAL SALARY PAYMENTS BY 38 PERCENT SINCE 1973. (1978 SALARY PAYMENTS ARE SOME 5.1 BILLION PESOS, UP FROM 1973 LEVEL OF ABOUT 3.7 BILLION PESOS.)

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PESOS.) AT SAME TIME, PUBLIC CONSUMPTION OF GOODS AND SERVICES HAS ONLY RISEN BY 25 PERCENT. THUS NET MONETARY BALANCE IS AGAIN ON THE RISE.

4. FURTHERMORE, VEIGA POINTS OUT THAT FULLY ONE-THIRD OF ADDED FORCE OF LABOR HAS ENTERED FIELDS WHERE EITHER GOODS OR SERVICES WHICH SOAK UP POPULAR PURCHASING POWER ARE NOT PRODUCED (EDUCATION, PUBLIC HEALTH) OR WHICH WILL PRODUCE THESE GOODS ONLY AFTER YEARS OF DELAY (CONSTRUCTION). UPSHOT OF SITUATION IS THAT MONEY IN HANDS OF POPULACE IS EXPANDING BACK TOWARD 1970 LEVELS. CUBANS, THEREFORE, HAVE DECIDED, FOR TIME BEING, TO PUT BRAKES ON FURTHER IMPLEMENTATION OF SALARY REFORMS THAT WOULD TEND TO INCREASE PUBLIC MONEY HOLDINGS.

5. VEIGA, POSING PROBLEM THAT MUST BE AVOIDED, SAYS THAT IN 1970 AT TIME OF HIGH POINT OF MONETARY SURPLUS, WORKERS WERE LOSING INTEREST IN MONEY (THEIR VITAL NEEDS WERE RESOLVED - ESSENTIAL FOOD WAS AVAILABLE AT LOW PRICE, RENT WAS ZERO OR MINIMAL, EDUCATIONAL AND MEDICAL SERVICES WERE FREE, AND THERE WAS NOTHING ELSE AVAILABLE TO BUY). THEREFORE, PEOPLE REFUSED TO WORK ON IMPORTANT NEW PROJECTS AND ABSENTE-

EISM WAS GREATER THAN 30 PERCENT IN SOME AGRICULTURAL
ZONES AND FACTORIES.

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6. BEGIN COMMENT: THE RAMIFICATIONS OF THE SITUATION DESCRIBED BY
VEIGA ARE MULTIPLE.FOR ONE THING, THE EXPANSION OF MONETARY
LIQUIDITY WHICH, AS VEIGA CORRECTLY POINTS OUT, DEPENDS
NOT ONLY ON SALARY INCREASES BUT ALSO ON NUMBER, EDUCATION, AND
SECTORAL DISTRIBUTION OF NEW MEMBERS OF LABOR FORCE, GIVES
A SPUR TO BLACK MARKET ACTIVITY, PARTICULARLY WITHHOLDING
FROM STATE SALES AND ILLICIT COMMERCIAL ACTIVITY BY PRIVATE
PEASANTS (SEE POLITBURO MEMBER JOSE RAMON MACHADO'S JUNE 21
SPEECH IN WHICH HE MENTIONS FAILURE BY ANAP - PRIVATE PEASANTS -
IN LAST YEAR TO MEET STATE PRODUCTION GOALS), AND TO CRIMES
AGAINST PROPERTY (NOTE THAT VICE-MINISTER OF INTERIOR GENERAL
ENIO LEYVA, IN JUNE 29 REPORT TO NATIONAL ASSEMBLY OF PDER
POPULAR INDICATED THAT INDICES OF CRIME, REVERSING PREVIOUS
TRENDS, HAVE RISEN DURING PAST THREE YEARS, THOUGH ENERGETIC
POLICE MEASURE BROUGHT RELATIVE REDUCTION IN LAST SIX MONTHS).

7. IN ADDITION, THE SOARING DEMAND FOR WHATEVER LIMITED
GOODS AND SERVICES ARE AVAILABLE AND DESIRED ON THE LOCAL
MARKET CAUSE SERIOUS INFLATION FOR NON-RATIONED
GOODS. (THUS A PRIVATELY-OWNED 1956 CHEVROLET EASILY SELLS HERE
FOR 15 THOUSAND PESOS.) THE INFLUX OF FOREIGN VISITORS WILL LIKELY
CREATE NEW TASTES AND DEMANDS WHICH WILL EXACERBATE THE BLACK
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MARKET PROBLEM AND, SECONDARILY, INCREASE THE ALREADY EXISTING POPULAR PREDISPOSITION AND DESIRE TO RESUME TRADE WITH THE U.S.

8. ON THE PRODUCTION SIDE, THE LIMITED UTILITY OF MONEY WILL LIKELY LIMIT PRODUCTIVITY AND ENCOURAGE ABSENTEEISM. (COMMENT: IN FIRST THREE MONTHS OF THIS YEAR, THE FIFTY-FOUR CUBAN EMPLOYEES OF USINT HAD OVER 600 ABSENCES - AN AVERAGE OF TWELVE PER EMPLOYEE FOR SIXTY WORKING DAYS.) LACK OF EFFECTIVE USE BY CUBANS OF "ECONOMIC LEVERS" HAS BEEN A CENTRAL COMPLAINT OF SOVIET FUNCTIONARIES HERE WHO DEAL WITH CONSTRUCTION PROJECTS. IN THIS REGARD, WE NOTE, FOR EXAMPLE, THAT JUNE 29 DECLARATION AT COMECON BUCHAREST MEETING CALLS FOR BOTH HELPING DEVELOPMENT AND "ELEVATING EFFICIENCY" OF CUBAN ECONOMY.

9. NET RESULT OF ALL THESE FACTORS MAY BE CREATION OF STRONGER INCENTIVE FOR CUBAN LEADERSHIP TO ACCOMMODATE PUBLIC'S DESIRE FOR DESIRABLE CONSUMER ARTICLES AND FOODSTUFFS - EITHER THROUGH IMPORTS OR CONSTRUCTION OR EXPANSION OF LOCAL PLANTS OR FACILITIES. GIVEN WEAKNESS OF SOCIALIST COUNTRIES IN THIS SPHERE, DESIRABILITY OF COMMERCE AND FINANCING FROM US BECOMES GREATER (THOUGH NOT ESSENTIAL GIVEN AVAILABILITY OF WESTERN EUROPE AND JAPAN.) FYI AN ADDITIONAL SOLUTION TO MONETARY PROBLEM IS REDUCTION OF LABOR FORCE THROUGH RENEWED EMIGRATION. THIS IS FEASIBLE DUE TO INCREASED MECHANIZATION OF AGRICULTURE AN EXPANSION OF INDUSTRY. END FYI: END COMMENT. GLASSMAN

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